

**CA \$351.5M GO Veterans Bonds Rated By Fitch IBCA**

FITCH IBCA-NY-April 6, 1999: California's general obligation veteran bonds \$8,500,000 series BQ (non-AMT) and \$71,500,000 series BR (AMT) are rated 'AA-' by Fitch IBCA. Also, \$100,000,000 series BJ 3/4 (AMT) and \$171,500,000 series BJ 5/6 (AMT), subject to mandatory tender no later than June 1, 2000 and June 1, 2001, respectively are rated 'AA-/F1+' by Fitch IBCA. In addition, the \$19.9 billion outstanding general obligation bonds are affirmed at 'AA-'. Series BQ mature serially from Dec. 1, 2003-2008. Series BR matures serially from Dec. 1, 2003-2012, with term bonds of \$14,115,00 due Dec. 1, 2019, \$6,130,000 due Dec. 1, 2026 and \$26,155,000 due Dec. 1, 2029. Optional call features have yet to be determined. The bonds are expected on or about April 7, through a syndicate led by Bear, Stearns & Co. Inc.

While the rating reflects the general credit of California, with its fundamental strengths buttressed by the extent of the economic recovery, the return of fiscal stability and a moderate debt burden, this financing is part of a larger plan for the department of veterans affairs home purchase loan program which included the refunding in December 1997 of the bulk of program debt to accomplish a restructuring. The series BJ 3/4 and BJ 5/6 offering is a short-term remarketing of bonds originally issued on Dec. 29, 1997. Series BQ and BR bonds will refund outstanding general obligation veteran bonds and outstanding series BJ1 and BJ2 bonds that are not being remarketed.

The bonds are secured by the assets of the program's 1943 fund, which is administered by the department, with payment of revenues bonds issued for the program (rated 'AA-'), subordinate to general obligation debt service. The program is self-supporting and general obligation veterans bonds are deducted to reach state net tax-supported debt.

The program's credit strengths focus on the high net asset position, better matched cash flow projections as a result of refundings, and a generally well performing, diverse loan portfolio. Credit concerns remain centered on the program's poor financial performance, the lack of mortgage insurance on the outstanding loans, together with the program's exposure to loan losses, which have been significant in recent years, and the remaining, albeit reduced, sensitivity to prepayments and short-term investment rates as a result of the relatively high coupon, noncallable portion of outstanding debt. The financing plan and the debt re-structuring has resulted in an overall lowering of the program's debt cost allowing the reduction of the loan interest rate from the current 8% to 6.95% effective April 1. The alignment of debt service and program revenues are improved as well.

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